

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 WARSAW 7080

EXDIS

EO 11652: GDS
TAGS: PL US UR EGEN EFIN PGOV PEPR
SUBJ: POLICY TOWARD EASTERN EUROPE

REF: STATE 204538

1. WE WELCOME SUMMARY OF LAST MONTH'S INTERAGENCY
DISCUSSION ON POLICY TOWARD EASTERN EUROPE AND HOPE OUR
COMMENTS CAN CONTRIBUTE TO YOUR CONSIDERATION
OF FUTURE STEPS WITH REGARD TO POLAND.

2. I WOULD REPHASE THE FIRST "CONCLUSION OF LAST FALL" AS
SET OUT IN REFTTEL PARA 3: THE US HAS A NATIONAL SECURITY
INTEREST IN THE STABLE EVOLUTION OF POLAND. THIS MEANS
THAT WE DESIRE STABILITY BUT NOT IMMOBILISME. THERE-
FORE OUR POLICY SHOULD AIM AT PROMOTING PROGRESSIVE
EVOLUTION OF THE POLISH SITUATION, BUT IN SUCH A WAY
AS TO AVOID DESTABILIZATION WHICH WOULD PROVOKE SOVIET
INTERVENTION AND PROVIDE THE USSR EVEN GREATER OCCASION
TO DICATATE THE FUTURE POLITICAL AND ECONOMIC DEVELOPMENT
OF THIS COUNTRY.

3. ACCORDINGLY, IN ANALYZING WHAT THE US CAN AND
SHOULD DO WE MUST CAREFULLY TREAD A PATH BETWEEN
ABANDONING THE DETERMINATION OF POLAND'S NEAR-
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TERM FUTURE ENTIRELY INTO SOVIET HANDS AND GIVING
NON-ESTABLISHMENT POLES, WHO CONSTITUTE
A PREPONDERANT MAJORITY, OVERWHELMING WESTERN-
ORIENTED, THE IDEA THAT WE ARE SUPPORTING THE
PRESENT REGIME TO THE EXCLUSION OF ANY OTHER. ON OTHER
WORDS WE SHOULD NOT SET OR CARRY OUT A POLICY BASED
ON THE INDEFINITE PERPETUATION OF THIS REGIME. BUT

NEITHER SHOULD WE PURSUE A POLICY WHICH MIGHT CONTRIBUTE TO ITS REPLACEMENT BY A MORE REPRESSIVE, MORE COMPLETELY SOVIET-DOMINATED ONE. OUR POLICY, THEN, SHOULD BE BASED ON STABLE, PERHAPS ORGANIC, INTERNAL DEVELOPMENT LEADING TO A POPULAR STAKE IN NEITHER ROMANTIC REVOLT NOT STATUS QUO.

4. US HELP TO POLAND HAS A DOUBLE AND LOGICAL EFFECT. TO THE EXTENT THAT IT ENABLES THE REGIME TO EXERCISE A DEGREE OF INDENPENDCE FROM THE USSR IT SERVES OUR BROAD EE POLICY PURPOSES. TO THE EXTENT THAT IT HELPS PREVENT A COMPLETE ECONOMIC BREAKDOWN IT ALSO CONTRIBUTES TO AN INTERNAL ATMOSPHERE IN WHICH DESIRABLE CHANGE CAN TAKE PLACE.

5. WE ARE NOW FACED WITH CERTAIN IMPORTANT FACTORS WHICH REQUIRE CONSTANT SCRUTINY AND, AS THE DEPARTMENT IS NOW DOING, WE SHOULD PREPARE OURSELVES FOR FUTURE CONTINGENCIES KEEPING THEM IN MIND. THESE FACTORS INCLUDE POLAND'S HARD CURRENCY DEBT, POSSIBLE DEBT RESCHEDULING, AND THE SOVIET AND POLISH 1978 HARVESTS.

6. WITH REGARD TO ITS HARD CURRENCY DEBT, POLAND'S HOPE FOR A LARGE FINANCIAL CREDIT APPEARS TO BE BLOCKED FOR THE TIME BEING. THE GERMANS HAVE NOW TOLD US
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THAT "A MONTH AGO" THEY TURNED DOWN POLAND'S REQUEST FOR A FINANCIAL CREDIT (BONN 1465). WE INFER THAT THE POLES REQUESTED SOME KIND OF SPECIAL FINANCIAL AID AT CONCESSIONARY INTEREST RATES. AT THE SAME TIME, WEST GERMAN COMMERCIAL BANKS HAVE NO PRESENT INTENTION OF LEADING A LARGE SYNDICATED (WESTERN BANKS) FINANCIAL CREDIT OF \$500 MILLION OR ONE BILLION -- SOMETHING REPEATEDLY RUMORED IN FINANCIAL CIRCLES FOR MORE THAN SIX MONTHS. (FRANKFURT 6090.)

7. SEVERAL QUESTIONS NOW ARISE. WILL THE GERMANS, BOTH GOVERNMENT AND BANKERS, MAINTAIN THEIR NEGATIVE POSITION? IF SO, IT IS DOUBTFUL THAT THE POLES WILL BE ABLE TO LINE UP MAJOR FINANCIAL CREDIT BEFORE THE END OF THE YEAR. WILL THE POLES RETALIATE BY CLAMPING DOWN ON ETHNIC GERMAN EMIGRATION? ONE FRG EMBASSY SOURCE SAYS THAT ONLY 600 OF THE 2000 DIFFICULT CASES (FAMILIES) RAISED BY SCHMIDT WITH GIEREK RECENTLY HAVE BEEN SOLVED. THE FRG REGARDS THE RATE OF PROGRESS AS UNSATISFACTORY. IS THE GERMAN REFUSLA OF FINANCIAL ASSISTANCE THAN A BARGAINING PLOY?

8. EVEN MORE UNCERTAIN IS WHETHER POLAND CAN AVOID
RESCHEDULING IF IT FAILS TO GET SUCH A FINANCIAL
CREDIT. SOME DIPLOAMTS HERE THINK THAT THE POLES
MIGHT BE ABLE TO SQUEEZE BY --BUT ONLY JUST--
BY RECEIVING BIG PROJECT LOANS FOR INDUSTRIAL CON-
SUMABLES (STELL, CHEMICALS, PLASTICS), JUGGLING
HERE, JUGGLING THERE, WORKING ALL THE PAINFUL, INTRI-
CATE AND INDIVIDUALLY SMALL FINANCIAL COVER-
ING OPERATIONS THEY HAVE BEEN ENGAGED IN FOR THE PAST
FEW YEARS. OTHERS ARE NOT SO SURE. THEY POINT OUT THAT
CONTINUTATIONOF THE FORCED REDUCTION OF IMPORTS UNDER-
TAKEN LAST SPRING COULD BEGIN TO HAVE SERIOUS AFFECTS
ON INDUSTRY.
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C O N F I D E N T I A L SECTION 2 OF 2 WARSAW 7080

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9. SUMMING UP, WE NEED A BETTER FIX ON WHAT WILL HAPPEN
IN THE "FINANCIAL CREDIT AREA" AND, IF NOTHING DOES
COME THROUGH, ON WHAT WILL HAPPEN WITHOUT THAT HELP.

10. REGARDING THE GRAIN HARVEST AND POLISH IMPORT NEEDS,
IN MID-AUGUST WE STILL DO NOT HAVE ANY FIRM ESTIMATES
ON WHAT THE POLISH HARVEST WILL BE AND HOW MUCH GRAIN
POLAND WILL WANT TO BUY FROM US. VICE PREMIER
JAGIELSKI GAVE NO SPECIFIC INDICATIONS DURING HIS

MEETING WITH ME ON JULY 20. MEANWHILE, THE SOVIET HARVEST IS NOW ESTIMATED TO BE GOOD-- POSSIBLY 220 MILLION TONS. IS THERE POSSIBILITY THAT THE SOVIETS WILL AGREE TO PROVIDE MORE THIS YEAR THAN THE USUAL MEAGRE ONE MILLION TONS OF BARLEY THEY HAVE REPORTEDLY GIVEN POLAND IN THE LAST FEW YEARS? WE WILL NOT KNOW FOR AT LEAST A MONTH. IN ANY CASE, WE SHOULD ANTICIPATE A REQUEST FOR APPROXIMATELY \$500 MILLION OF CCC CREDITS FOR PURCHASES FROM THE US.

11. FINALLY, IN REGARD TO POLISH REQUESTS FOR GRAIN CREDITS FROM THE US, THERE IS THE QUESTION OF THE LEGISLATION PENDING IN THE CONGRESS FOR INTERMEDIATE CREDITS-- THREE TO TEN YEARS-- VICE THE CURRENT CCC CONDITIONS OF THREE YEARS. IT IS STILL NOT CLEAR TO US
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WHETHER POLAND COULD BENEFIT FROM THIS LEGISLATION AT LEAST THIS YEAR.

12. ON POSSIBLE POLISH MEMBERSHIP IN THE IMF, WE HAVE CLOSELY FOLLOWING THIS QUESTION SINCE THE SUMMER OF 1977, WHEN IT WAS FIRST PROPOSED AS A DELICATE MATTER TO BE RAISED WITH THE POLES ON A CONFIDENTIAL BASIS. LATER WE TOLD THEM FLATLY (SECRETARY KREPS TO JAROSZEWICZ AND FINANCE MINISTER KISIEL IN DEC 1977) THAT WE WOULD SUPPORT POLISH ENTRY IF THEY DECIDED TO MOVE AHEAD. THE POLISH RESPONSE HAS BEEN CONSISTENTLY OBLIQUE. YES, THEY MIGHT LIKE TO JOIN, BUT-- AND BEHIND THE "BUTS" HAVE BEEN VARIOUS REFERENCES TO THE NEED FOR COMECON, I.E., SOVIET, CONSULTATIONS AND ASCERTAINING THE INTENTIONS OF ALL OTHER COMECON COUNTRIES IN THIS REGARD.

13. WE BELIEVE POLISH ENTRY INTO IMF IS A DEAD ISSUE FOR THE TIME BEING, THE SOVIETS HAVING DICTATED A FIRM REFUSAL. IN VIEW OF INCREASED SOVIET PRESSURE FOR POLISH-USSR ECONOMIC COOPERATION, WE SUGGEST THAT SERIOUS CONSIDERATION OF THE IMF MEMBERSHIP ISSUE IS NOT A VIABLE STRATEGY AT THIS TIME. HOWEVER, SHOULD POLAND BE FORCED TO ASK FOR LARGE-SCALE RESCHEDULING, IMF MEMBERSHIP MIGHT AGAIN BECOME A LIVE ISSUE.

14. WE WILL BE OBSERVING AND ANALYZING VERY INTENSIVELY POLAND'S ECONOMIC SITUATION FOR THE NEXT 45-60 DAYS. AT THAT TIME WE MAY HAVE A BETTER BASIS ON WHICH TO CONCLUDE WHAT THE POLES SHOULD DO OR ARE GOING TO DO ABOUT THEIR PROBLEMS. (ONE DOES NOT NECESSARILY

FOLLOW FROM THE OTHER.) IN THE MEANTIME

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WE RECOMMEND THAT THE DEPARTMENT AND THE EMBASSY
PUSH FORWARD ON CONTINGENCY PLANNING, ESPECIALLY
CONCERNING MULTILATERAL RESCHEDULING AND FINANCIAL
CREDIT. AT A SUITABLE TIME IT MIGHT BE DESIRABLE
TO PRESS THE FRG ON THE REASONS FOR ITS APPARENT
TURNAROUND ON BALANCE-OF-PAYMENTS AID. WE BELIEVE
THAT IF THE WEST GERMANS WERE TO LEAD THE AY OTHER
WESTERN COUNTRIES AND OTHER WESTERN BANKS MIGHT BE
GLAD TO FOLLOW. ON AUGUST 14, FOR EXAMPLE, THE
DEPUTY DIRECTOR OF CITIBANK EAST
EUROPEAN OFFICE TOLD US THAT HE BELIEVED IT VERY
PROBABLY THAT CITIBANK WOULD SUBSCRIBE TO A
SYNDICATE TO PROVIDE A FINANCIAL CREDIT FOR POLAND
IF SUCH A SYNDICATE WERE LED AND ORGANIZED BY WEST
GERMAN BANKS.

15. FINALLY, WITH REGARD TO CULTURAL EXCHANGES, OUR SUGGESTIONS
FOR EXPANDING PROGRAMMING THAT WOULD BE MADE POSSIBLE BY MORE
MONEY WERE SET FORTH IN WARSAW 3765. IT IS IMPORTANT TO NOTE
THAT OUR EXCHANGE PROGRAM HAS ACTUALLY BEEN CUR-
TAILED BY THE REORGANIZATION OF ICA, DIR WE NO LONGER
BENEFIT FROM THE YEAR-END FUNDS THAT DURING THE PAST
SEVERAL YEARS WE HAVE COME TO COUNT ON FOR ADDI-
TIONAL IVP GRANTS AND OTHER EXCHANGE ACTIVITIES.
THEREFORE, WE HAVE HAD TO PUT OFF A SUBSTANTIAL
NUMBER OF IVP GRANTS TO NEXT YEAR BECAUSE WE COULD
NOT FINANCE THEM FROM THIS YEAR'S BUDGET. IN SUM,
AT A TIME WHEN WE PROBABLY NEED OUR CUL-
TURAL EXCHANGE PROGRAM MORE THAN ANY OTHER TIME IN
RECENT YEARS AND ACCORDINGLY NEED TO EXPAND IT,
WE ARE HAVING TO CUT BACK.
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